

**Orion Township Public Library
Lake Orion, Michigan**

FINANCIAL STATEMENTS

December 31, 2013

Orion Township Public Library

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Orion Township Public Library
Lake Orion, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Orion Township Public Library (the Library) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Orion Township Public Library, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note J, Orion Township Public Library implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, certain items previously reported as assets and liabilities have been reclassified as deferred outflows of resources and deferred inflows of resources, as applicable. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress and employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 17, 2014

Orion Township Public Library
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

Financial Reporting

The Orion Township Public Library, (the "Library") has continued to revise and improve its financial report document as a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library by introducing accounting rules and systems that are common in the private sector. This report represents a broad picture of the Library's financial status. Through the comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The Library management's discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Library's financial statements which immediately follow this section.

Financial Highlights

As discussed in further detail in this section, the following represents the most significant financial highlights for the year ended December 31, 2013:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$4,653,548 (net position) at the government-wide level.
- The Library's total net position decreased \$302,698 as a result of current year activity at the government-wide level.
- At the close of the fiscal year, the Library's general fund reported a fund balance of \$2,798,904.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This long-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Orion Township Public Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

The Library as a Whole

The following table shows, in condensed format, the net position as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Assets		
Current and other assets	\$ 2,887,464	\$ 3,066,007
Capital assets, net	<u>1,854,644</u>	<u>2,056,422</u>
Total assets	4,742,108	5,122,429
Liabilities		
Current liabilities	<u>88,560</u>	<u>166,183</u>
Net Position		
Net investment in capital assets	1,854,644	2,056,422
Unrestricted	<u>2,798,904</u>	<u>2,899,824</u>
Total net position	<u>\$ 4,653,548</u>	<u>\$ 4,956,246</u>

The Library's total net position was \$4,653,548 at December 31, 2013, a decrease of \$302,698 over the total net position at the end of the previous fiscal year. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$2,798,904 at the end of the fiscal year, a decrease of \$100,920 over the previous year end. The net investment in capital assets was \$1,854,644, a decrease of \$201,778 over the previous fiscal year.

The following table shows the changes in net position during the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Revenues		
Program revenue:		
Grant income	\$ 5,028	\$ 750
Donations revenue	28,524	38,490
Penal fines	47,005	47,645
Copier service	8,580	8,690
Library fines	52,837	52,103
Lost or damaged income	3,458	4,080
General revenue:		
Property taxes	1,839,713	1,872,605
State shared revenues	17,943	15,851
Interest and dividend income	16,033	24,036
Gain on sale of capital assets	2,480	3,816
Realized and unrealized gain on investments	-	71
Miscellaneous	<u>8,991</u>	<u>5,968</u>
Total revenues	2,030,592	2,074,105
Program Expenses		
Library services/recreation and culture	<u>2,333,290</u>	<u>2,443,452</u>
Change in Net Position	<u>\$ (302,698)</u>	<u>\$ (369,347)</u>

Orion Township Public Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

Governmental Activities

The Library's governmental revenues totaled \$2,030,592 with the greatest revenue source being property taxes. Property taxes make up approximately 91 percent of total governmental revenue.

The Library incurred expenses of \$2,333,290 during the year. This includes operational expenses as well as depreciation.

The Library's Funds

The analysis of the Library's major fund begins on page 1, as part of the basic financial statements. The Trustees of the Orion Township Public Library may create funds to help manage money for specific purposes as well as to show accountability for certain activities.

The Library maintains one governmental fund, out of which \$1,296,044 is assigned for future building and capital improvement needs. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Library's major fund. The General Fund is the sole major fund for the fiscal year ended December 31, 2013, for financial reporting purposes as defined by GASB Statement No. 34.

The Library incurred \$2,131,512 in expenditures for 2013, to operate the library, including \$231,859 in capital improvements, library books, and materials. Revenue totaled \$2,030,592. The net loss for the library for 2013 was \$100,920 (expenditures over revenues) creating a fund balance of \$2,798,904.

Budgetary Highlights

The Orion Township Public Library Board of Trustees adopts an annual budget as required by P.A. 164 of 1877, as amended. The Board then determines the amount of millage that is required to support the budget at a public hearing held before the first Monday in September. The Board then adopts a resolution to be given to the Township to collect the required millage. The fiscal year is January 1 through December 31, 2013. The budget was amended for the final time in December 2013. A budgetary comparison statement has been provided as required supplementary information to demonstrate compliance with this budget.

Taxes were \$32,892 lower than 2012's collection, due to a decrease in property values. This decrease, due to the economic downturn in the region and 100% tax abatement given to General Motors for the Orion Plant in 2010 will continue to affect revenue over the next two to three years. Also, \$12,370 had to be returned to the Township for Michigan Tax Tribunal Refunds. This has now become a line item in the budget as more settlements are expected in future years. Revenues previously accrued by interest on investments are much lower, due to the state of the economy. Any capital expenditures and some operating expenditures will be supported by the fund balance as voted by the Library Board. The Library continues to cut expenses wherever possible, including changing to a less expensive delivery system for interlibrary loan, a less expensive system for catalog records, reducing the library newsletter to publication only three times per year (instead of four) and finding less expensive ways to produce it, moving more services to electronic delivery, and switching to a different health care plan to lower costs to the library. State aid increased from \$15,851 in 2012 to \$17,943 in 2013.

Orion Township Public Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$1,854,644 invested in land, building and additions, equipment, furniture, and collections (net of accumulated depreciation). \$1,296,044 of fund balance has been assigned for future building needs. \$196,035 in library books and materials were added to assets inventory and \$253,233 in books and materials was disposed of. As mentioned earlier, \$35,183 was spent on capital improvements. Note C to the financial statements provides additional information regarding capital assets.

A lease commitment for photocopiers was entered into in 2012 for 63 months with a liability totaling approximately \$33,000. A lease commitment for a postage machine was entered into in 2013 for 36 months with a liability totaling approximately \$1,500.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's office at:

Orion Township Public Library
825 Joslyn Road
Lake Orion, MI 48362

BASIC FINANCIAL STATEMENTS

Orion Township Public Library

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION

December 31, 2013

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 1,891,719	\$ -	\$ 1,891,719
Investments			
Current	561,458	-	561,458
Noncurrent	335,000	-	335,000
Accounts receivable	2,847	-	2,847
Prepays	96,440	-	96,440
Capital assets not being depreciated	-	46,036	46,036
Capital assets, net of accumulated depreciation	-	1,808,608	1,808,608
TOTAL ASSETS	2,887,464	1,854,644	4,742,108
LIABILITIES			
Accounts payable	30,049	-	30,049
Accrued vacation	46,346	-	46,346
Accrued wages	10,993	-	10,993
Unearned revenue	1,172	-	1,172
TOTAL LIABILITIES	88,560	-0-	88,560
FUND BALANCE			
Nonspendable	96,440	(96,440)	-0-
Assigned for future building needs	1,296,044	(1,296,044)	-0-
Unassigned	1,406,420	(1,406,420)	-0-
TOTAL FUND BALANCE	2,798,904	(2,798,904)	-0-
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,887,464	-0-	-0-
NET POSITION			
Net investment in capital assets		1,854,644	1,854,644
Unrestricted		2,798,904	2,798,904
TOTAL NET POSITION		\$ 4,653,548	\$ 4,653,548

See accompanying notes to financial statements.

Orion Township Public Library

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE AND STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

	General Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current			
Recreation and culture			
Salaries	\$ 1,125,846	\$ -	\$ 1,125,846
Payroll taxes, employee benefits and employee pension contributions	355,853	-	355,853
Supplies	55,878	-	55,878
Automation	105,629	-	105,629
Library books and materials	197,507	(196,035)	1,472
Promotion, publishing and printing	20,359	-	20,359
Telephone	10,648	-	10,648
Utilities	61,419	-	61,419
Repairs and maintenance	32,714	-	32,714
Insurance and workers' compensation	32,520	-	32,520
Transportation	5,199	-	5,199
Education, training and dues	14,083	-	14,083
Professional and contractual services	36,821	-	36,821
Property tax tribunals	12,370	-	12,370
Donation expense	22,629	-	22,629
Miscellaneous expense	3,663	-	3,663
Capital improvements	38,374	(35,183)	3,191
Depreciation	-	432,996	432,996
TOTAL EXPENDITURES/EXPENSES	2,131,512	201,778	2,333,290
PROGRAM REVENUES			
Grant income	5,028	-	5,028
Donations	28,524	-	28,524
Penal fines	47,005	-	47,005
Copier service	8,580	-	8,580
Library fines	52,837	-	52,837
Lost or damaged income	3,458	-	3,458
TOTAL PROGRAM REVENUES	145,432	-0-	145,432
NET PROGRAM EXPENSE	(1,986,080)	(201,778)	(2,187,858)
GENERAL REVENUES			
Property taxes	1,839,713	-	1,839,713
State aid	17,943	-	17,943
Interest and dividend income	16,033	-	16,033
Proceeds/gain from sales of capital assets	2,480	-	2,480
Miscellaneous income	8,991	-	8,991
TOTAL GENERAL REVENUES	1,885,160	-0-	1,885,160
NET CHANGE IN FUND BALANCE	(100,920)	(100,920)	-0-
CHANGE IN NET POSITION	-0-	(302,698)	(302,698)
Fund balance/Net position			
Beginning of the year	2,899,824	2,056,422	4,956,246
End of the year	\$ 2,798,904	\$ 1,854,644	\$ 4,653,548

See accompanying notes to financial statements.

Orion Township Public Library
STATEMENT OF FIDUCIARY NET POSITION
December 31, 2013

	Retiree Health Care Trust Fund
ASSETS	
Cash and cash equivalents	\$ 371,521
Prepays and other	<u>4,662</u>
TOTAL ASSETS	376,183
LIABILITIES	
Accrued expenses	<u>907</u>
NET POSITION	
Held in trust for post-employment medical benefits	<u><u>\$ 375,276</u></u>

See accompanying notes to financial statements.

Orion Township Public Library

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2013

	Retiree Health Care Trust Fund
ADDITIONS	
Employer contributions	\$ 18,626
Interest and dividend income	<u>1,518</u>
TOTAL ADDITIONS	20,144
DEDUCTIONS	
Benefits	17,567
Administrative expenses	<u>100</u>
TOTAL DEDUCTIONS	<u>17,667</u>
CHANGE IN NET POSITION	2,477
Net position, beginning of year	<u>372,799</u>
Net position, end of year	<u><u>\$ 375,276</u></u>

See accompanying notes to financial statements.

Orion Township Public Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Orion Township Public Library was established in 1929 to provide recreational and cultural services to the residents of Orion Township. The Library's activities are overseen by a six (6) member Board of Trustees.

The financial statements of the Library have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Library's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements are exclusive presentations of the financial condition and results of operations of the Orion Township Public Library.

2. Basis of Presentation and Measurement Focus

Combined financial statements are provided for the Governmental Fund Balance Sheet and the Statement of Net Position, and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities. Descriptions of both presentations included in the basic financial statements are as follows:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide statements) present information for the Library as a whole, excluding fiduciary activities such as the Retiree Health Care Trust Fund.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, adjustments are reflected on the face of the financial statements. Those adjustments are explained in detail in Note I.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all local government appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Library's individual major fund, the General Fund. The General Fund is used to account for all financial transactions not accounted for in another fund including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, and grants.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in fund balance.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

2. Basis of Presentation and Measurement Focus - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The Library also reports a fiduciary fund to account for assets held by the Library as an agent for other governments, private organizations, or individuals. The Library's fiduciary fund is the Retiree Health Care Trust Fund. The Trust is used to fund the cost of retiree health care benefits for eligible Plan participants.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the Library before it has legal claim to them, such as when program fees are received but not yet earned.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Library reports unearned revenue on its governmental fund balance sheet and statement of net position. Unearned revenue arises when the Library receives resources before it has legal claim to them and unavailable revenue arises when it is not available to be used to pay liabilities of the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for unearned revenue is removed from the balance sheet and statement of net position, respectively, and revenue is recognized.

4. Budgets and Budgetary Accounting

The annual budget of the Library is prepared by Library management and approved by the Board of Trustees at the total expenditure level. Any revisions to the original budget are approved by the Board before the end of the year.

The Library employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the August Board meeting, the Library Director submits to the Finance Committee a proposed operating budget for the fiscal year commencing the following January 1st. In August, the Finance Committee submits the proposed operating budget to the Library Board. The budget is legally adopted by a Library Board Resolution by the first Monday in September in accordance with P.A. 164 of 1877, as amended. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted at the Library's August Board meeting to obtain taxpayer comments regarding millage rate and budget.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to the first Monday in September, the budget is legally adopted by a Library Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Act are disclosed as unfavorable variances on the General Fund budgetary comparison schedule.
- d. The Director is authorized to transfer budgeted amounts between line-items within an activity. However, the Library Board must approve any revisions that alter the total expenditures for any activity.
- e. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.

5. Cash and Cash Equivalents

Cash and cash equivalents consists of the Library's checking, savings, and money market accounts as well as certificates of deposit with maturities of less than ninety (90) days. The cash and cash equivalents are recorded at cost, which approximates fair value.

6. Investments

Investments are carried at fair value based on quoted market prices and consist of certificates of deposit with maturities of greater than ninety (90) days, treasury notes, and equity securities.

7. Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs. Management closely monitors outstanding balances and writes off receivables when the receivable is deemed uncollectible. Management believes any realization losses on the outstanding balance at December 31, 2013 would be immaterial; accordingly, no allowance is utilized.

8. Property Taxes

The portion of property taxes allocated to the Library from Orion Township is recorded as revenue in these basic financial statements in the subsequent year in which they are levied. Accordingly, the Library has included in revenue for the year ended December 31, 2013, property taxes levied during December of 2012. The millage rate levied for 2012 was 1.4189.

9. Prepays

Prepaid expenditures in the governmental funds and prepaid expenses in the government-wide financial statements, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$3,500 or more and an estimated useful life of more than one year. Capital assets are not recorded in governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	15 - 31.5 years
Building and improvements	31.5 years
Equipment, furniture and fixtures	5 - 10 years
Library books and materials	5 years

11. Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet and statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of fund balance/net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the balance sheet and statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance/net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Currently, the Library does not report any deferred outflows of resources or deferred inflows of resources.

12. Accrued Vacation

It is the Library's policy to permit employees to accumulate a limited amount of earned but unused vacation, which will be paid to the employees upon separation from the Library. Employees are paid their accumulated vacation pay upon termination of employment for any reason. Compensated absences over one year expire and do not get accrued; therefore, compensated absences are not reported in the government-wide financial statements.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

Orion Township Public Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

The Library's bank deposits at December 31, 2013, were comprised of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking accounts	\$ 124,672	\$ 127,011
Savings accounts	369,917	369,917
Money market accounts	1,395,241	1,395,307
Certificates of deposit	<u>885,613</u>	<u>886,417</u>
Total primary government	2,775,443	2,778,652
FIDUCIARY FUNDS		
Checking account	21,615	21,615
Money market account	172,149	172,149
Certificate of deposit	<u>177,757</u>	<u>177,757</u>
Total fiduciary funds	<u>371,521</u>	<u>371,521</u>
	<u>\$ 3,146,964</u>	<u>\$ 3,150,173</u>

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of bank failure, the Library's deposits may not be returned to it. Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Library. As of December 31, 2013, \$2,764,350 of the Library's accounts were FDIC-insured while \$385,823 were uninsured.

Due to significantly higher cash flows at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The Library also held investments in mutual funds at December 31, 2013, of \$10,845.

Orion Township Public Library
NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Credit risk

State law limits investing in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Library also has an investment policy, which further limits its investment choices as follows:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States. Total investment shall not exceed 25% of the total portfolio of Library investments.

Commercial paper rated at the time of purchase at the highest classification established by not less than two (2) standard rating services and that matures not more than 270 days after the date of purchase. Total investment shall not exceed 25% of the total portfolio of Library investments.

Mutual funds as described by Section I, Act 20 P.A. 1943 as amended. The authorization includes securities whose intention is to maintain a net asset value of \$1.00 per share or securities whose net asset value per share may fluctuate on a periodic basis. Total investment shall not exceed 15% of the total portfolio of Library investments.

Interest rate risk

The Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Concentration of credit risk

The Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer by limiting investments to authorized types of securities, pre-qualifying financial institutions with which the Library will do business, and diversifying the investment portfolio.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The cash and cash equivalents caption on the financial statements include \$1,889 in petty cash.

The following summarizes the categorization of these amounts as of December 31, 2013:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,891,719	\$ 371,521	\$ 2,263,240
Investments			
Certificates of deposit	885,613	-	885,613
Mutual funds	<u>10,845</u>	<u>-</u>	<u>10,845</u>
	<u>\$ 2,788,177</u>	<u>\$ 371,521</u>	<u>\$ 3,159,698</u>

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

Orion Township Public Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance Jan. 1, 2013	Additions	Disposals	Balance Dec. 31, 2013
Capital assets not being depreciated				
Land	\$ 46,036	\$ -	\$ -	\$ 46,036
Capital assets being depreciated				
Land improvements	46,267	-	-	46,267
Building and improvements	3,251,664	-	-	3,251,664
Equipment, furniture and fixtures	1,717,494	35,183	(41,973)	1,710,704
Library books and materials	1,074,713	196,035	(253,233)	1,017,515
Total capital assets being depreciated	6,090,138	231,218	(295,206)	6,026,150
Less accumulated depreciation for:				
Land improvements	(30,740)	(3,086)	-	(33,826)
Building and improvements	(2,307,285)	(103,227)	-	(2,410,512)
Equipment, furniture and fixtures	(1,269,268)	(111,740)	41,973	(1,339,035)
Library books and materials	(472,459)	(214,943)	253,233	(434,169)
Total accumulated depreciation	(4,079,752)	(432,996)	295,206	(4,217,542)
Net capital assets being depreciated	2,010,386	(201,778)	-0-	1,808,608
Capital assets, net	<u>\$ 2,056,422</u>	<u>\$ (201,778)</u>	<u>\$ -0-</u>	<u>\$ 1,854,644</u>

NOTE D: LEASE COMMITMENTS

In November 2012, the Library entered into a sixty-three (63) month operating lease agreement for three (3) copiers. The lease requires monthly payments of \$533 which began in January 2013 and continues through March 2018. In May 2013, the library entered into a thirty-six (36) month operating lease for a postage machine. The lease requires quarterly payments of \$123 which began in June 2013 and continues through May 2016.

The future minimum lease payments under these noncancelable operating agreements at December 31, 2013, are as follows:

Year Ending December 31,	
2014	\$ 6,889
2015	6,889
2016	6,602
2017	6,397
2018	1,599
	<u>\$ 28,376</u>

Rental expense for 2013 under the noncancelable operating lease agreements was \$6,684.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE E: DEFINED CONTRIBUTION PENSION PLAN

The Library sponsors a defined contribution Group Pension Plan (the Plan) administered by the Library. The Plan may be amended from time-to-time by written amendment executed by the insurer of the Plan. The Plan covers full-time employees who are at least 18 years of age and have six months of service with the Library. The Library's required contributions are in varying amounts from 8% to 10% of compensation per participant depending on length of service. Participants may also make voluntary contributions of up to 10% of their monthly compensation. Library contributions to the Plan amounted to \$68,266 in 2013.

NOTE F: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Library has a Retiree Health Care Plan and Trust (the "Plan") under Internal Revenue Code Section 501(c)(9) as a voluntary employees' beneficiary association to provide medical benefits to eligible retirees, their spouses and dependents. The Plan incorporates the terms of the medical benefits program as included in the health insurance contracts. Comerica Bank, a Michigan banking corporation, is the Trustee of the assets of the Plan. As of the most recent actuary report, the Plan has 22 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

Benefits are provided through traditional indemnity insurance, a health maintenance organization or a preferred provider organization. In order to be eligible for the retiree health insurance benefits all of the following must be met:

- Employee of the Library and has separated from service with the Library after July 18, 2006.
- Has attained the age of fifty-five (55) as of his or her separation date.
- At least 10 years of full-time continuous employment at the Library prior to retirement.
- Receipt of a retirement benefit from the Orion Township Public Group Pension Plan.
- Participation in the Library's health insurance program at the time of retirement.
- Election, prior to entry date, to be covered under the Plan.
- Agreement to enroll in Medicare immediately upon becoming eligible for Medicare benefits.

The Plan does not issue a separate stand-alone financial statement.

Funding Policy

The Library intends, but is not required, to make annual contributions to the Trust in an amount determined by the Library pursuant to resolutions adopted annually by the Governing Board on or before the last day of each Trust year, to be held and administered in Trust by the Trustees according to the terms of the Trust agreement. Contributions by retirees (including contributions payable on behalf of the retiree's spouse and dependents) may be required, but active Plan members are not currently obligated to make contributions. The Trust does not have legally required reserves.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE F: OTHER POST-EMPLOYMENT BENEFITS - CONTINUEDActuarial Methods and Assumptions - continued

Actuarial valuation information (current and two preceding valuations):

	Second Preceding Valuation	First Preceding Valuation	Current Year Report
Valuation date	-	1/1/2008	12/31/2011
Market value of plan assets	\$ -	\$ 365,796	\$ 378,163
Actuarial accrued liability	-	326,587	568,035
Unfunded actuarial liability	-	(39,209)	189,872
Funded ratio	-	112.0%	67.1%
Covered payroll	Not available	Not available	Not available
Unfunded liability/payroll ratio	Not available	Not available	Not available

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the aggregated cost method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. Additionally, an actuarial assumption of 50 percent utilization of the Plan by eligible Plan participants was made based on their discontinued usage of the Plan once the participants are eligible for Medicare coverage. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period.

The changes in the assumptions from the prior valuation included changing the valuation date from the beginning of the year to the end of the year; the mortality table was updated to a contemporary table; the impact of the Affordable Care Act was considered; available Medicare supplement premium inflation was used for post-65 costs; and the HRA contribution was valued.

NOTE G: RISK MANAGEMENT

The Library participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

The Library also participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, liability, auto and casualty losses. The pool is organized under Public Act 168 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Library has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE H: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Library's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a full vote and approval by the Board of Trustees.

For assigned fund balance, the Board of Trustees is authorized to assign amounts to a specific purpose through a full vote and approval.

For the classification of fund balance amounts, the Library spends restricted amounts first, then unrestricted amounts when both restricted and unrestricted amounts are available. Similarly, the Library spends committed amounts first, then assigned amounts, and finally unassigned amounts when any of those unrestricted fund balance classifications could be used.

NOTE I: RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net position and changes in net position of the governmental activities reported in the statement of net position and statement of activities, respectively. This difference primarily results from the long-term economic focus of the statement of net position and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

Orion Township Public Library

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE I: RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

The following are reconciliations of fund balance to net position and the net change in fund balance to the change in net position:

Total fund balance - governmental fund	\$ 2,798,904
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Amounts reported in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 6,072,186	
Accumulated depreciation is	<u>(4,217,542)</u>	
Capital assets, net		<u>1,854,644</u>

Net position of governmental activities	<u>\$ 4,653,548</u>
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Net change in fund balance - governmental fund	\$ (100,920)
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 231,218	
Depreciation expense	<u>(432,996)</u>	
Excess of depreciation expense over capital outlay		<u>(201,778)</u>

Change in net position of governmental activities	<u>\$ (302,698)</u>
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NOTE J: CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statements elements deferred outflows of resources and deferred inflows of resources.

NOTE K: RELATED PARTY

During 2013, the Friends of the Orion Township Library, a related party, made donations of \$21,450 to the Library. At December 31, 2013, the Library owed \$4,874 to the Friends of the Orion Township Library.

REQUIRED SUPPLEMENTARY INFORMATION

Orion Township Public Library
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2013

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 1,845,000	\$ 1,845,000	\$ 1,839,713	\$ (5,287)
State aid	14,000	14,000	17,943	3,943
Grant income	-	-	5,028	5,028
Penal fines	38,000	38,000	47,005	9,005
Copier service	9,000	9,000	8,580	(420)
Interest and dividend income	20,000	20,000	16,033	(3,967)
Donations revenue	25,000	25,000	28,524	3,524
Library fines	55,000	55,000	52,837	(2,163)
Lost or damaged income	-	-	3,458	3,458
Proceeds from sales of capital assets	-	-	2,480	2,480
Miscellaneous income	7,000	7,000	8,991	1,991
TOTAL REVENUES	2,013,000	2,013,000	2,030,592	17,592
EXPENDITURES				
Current				
Recreation and Culture				
Salaries	1,280,000	1,260,000	1,125,846	134,154
Payroll, payroll taxes, employee benefits and employee pension contributions	435,000	388,874	337,227	51,647
Supplies	54,000	57,000	55,878	1,122
Automation	120,000	135,000	105,629	29,371
Library books and materials	208,000	208,000	197,507	10,493
Promotion, publishing and printing	20,500	23,500	20,359	3,141
Telephone	12,000	12,000	10,648	1,352
Utilities	65,000	65,000	61,419	3,581
Repairs and maintenance	35,000	35,000	32,714	2,286
Insurance and workers' compensation	41,000	41,000	32,520	8,480
Transportation	4,000	5,500	5,199	301
Education, training and dues	14,000	14,000	14,083	(83)
Professional and contractual services	21,000	46,000	36,821	9,179
Property tax tribunals	40,000	40,000	12,370	27,630
Donation expenditures	1,000	1,000	22,629	(21,629)
Miscellaneous expenditures	2,500	2,500	3,663	(1,163)
Post-employment benefits	-	18,626	18,626	-0-
Capital improvements	80,000	80,000	38,374	41,626
TOTAL EXPENDITURES	2,433,000	2,433,000	2,131,512	301,488
NET CHANGE IN FUND BALANCE	(420,000)	(420,000)	(100,920)	319,080
Fund balance, beginning of year	2,899,824	2,899,824	2,899,824	-0-
Fund balance, end of year	\$ 2,479,824	\$ 2,479,824	\$ 2,798,904	\$ 319,080

Orion Township Public Library

Post-employment Medical Benefits Plan

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended December 31, 2013

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Accrued Liability (b)	Actuarial Value of Assets (a)	Under/(Over) Funded Actuarial Accrued Liability (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Actuarial Accrued Liability as a Percentage of Covered Payroll (d)
1/1/2008	\$ 326,587	\$ 365,796	\$ (39,209)	112%	Not available	Not available
12/31/2011	568,035	378,163	189,872	67	Not available	Not available

The information presented above was determined as part of the actuarial valuation at the dates indicated.

Additional information as of December 31, 2011, the latest actuarial valuation, follows:

Actuarial cost method	Aggregated cost method
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.50%
Return on plan assets	6.50%
Utilization of plan benefits	50% discontinuation upon becoming Medicare eligible

The schedule of employer contributions is as follows:

Year Ended December 31,	Annual Required Contribution	Contribution from Employees	Contribution from Employer	Total Amount Contributed	Employer Percentage Contributed
2008	\$ 316	\$ -	\$ 17,000	\$ 17,000	538.0%
2009	2,161	-	7,000	7,000	339.6%
2010	2,715	-	-	-	-
2011	3,827	-	-	-	-
2012	18,626	-	18,626	18,626	100.0%
2013	18,626	-	18,626	18,626	100.0%

Principals

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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Board of Trustees
Orion Township Public Library
Lake Orion, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Orion Township Public Library (the Library), as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Trustees of the Library, others within the organization, and applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 17, 2014